

IRS Oversight Board Public Meeting

March 7, 2007

A SUMMARY OF STAKEHOLDER COMMENTS AND EMERGING THEMES

OVERVIEW OF THE IRS OVERSIGHT BOARD PUBLIC MEETING

On March 7, 2007 the IRS Oversight Board conducted its annual public meeting with external stakeholders to listen to their comments and insights regarding the IRS and the tax administration system. The IRS Oversight Board has selected the topic, *What Can My Organization Do Differently Than it Has in the Past to Reduce the Tax Gap?*, to emphasize that reducing the tax gap is not just the responsibility of the IRS, but of all organizations that are engaged in tax administration.

The tax gap affects us all as taxpayers and citizens, and we cannot expect the IRS to bear the burden of reducing the tax gap on its own. Not only doesn't it have the resources to do this, but taxpayers themselves, whether individual or corporate, are the primary decision-makers relative to their tax compliancy posture. As taxpayers and representatives of taxpayers, external stakeholder organizations are in a position to contribute to reducing the tax gap.

Representatives of fourteen organizations presented their views and submitted written statements for Board review and consideration. The meeting featured two panels, addressing an area of interest to external groups as well as Board members.

Panel One: Moderator, Raymond T. Wagner, Jr., Chair, IRSOB Operations Support Committee

- National Treasury Employees Union, *Colleen M. Kelley, NTEU National President*
- Tax Executives Institute, *Timothy J. McCormally, Executive Director*
- American Bar Association Section of Taxation, *Pamela F. Olson, Partner, Skadden, Arps, Meagher & Flom LLP*
- Federation of Tax Administrators, *Marcy Jo Mandel, Deputy Controller, State of California*
- American Institute of Certified Public Accountants, *Jeffrey R. Hoops, Chairman, Tax Executive Committee*
- Electronic Tax Administration Advisory Committee, *Robert J. Meighan, ETAAC Chair*
- National Society of Accountants, *Harold Stamey, NSA Director, State of Georgia*

Panel Two: Moderator, Bob Tobias, Chair, IRSOB Operations Committee

- National Council for Taxpayer Advocacy, *Dr. William Stevenson, Spokesperson*
- The American University, Washington College of Law Janet R. Spragens Federal Tax Clinic, *Nancy Abramowitz, Esq., Director*
- National Society of Tax Professionals, *Beanna J. Whitlock, Executive Director*
- National Payroll Reporting Consortium, *Tony Tullo, Spokesperson*
- National Association of Enrolled Agents, *Roger Harris, President, Padgett Business Service*
- National Association of Tax Professionals, *Larry Gray, CPA, Spokesperson*
- Internal Revenue Service Advisory Council, *Margaret Roark, IRSAC Vice-Chair*

Board Chair Paul Jones welcomed the attendees, and said that the public meeting gives the Oversight Board the opportunity to hear from stakeholders on important issues relating to tax administration. He welcomed the two new Board members, Deborah Wince-Smith and Paul Cherecwich, to their first public meeting. He also introduced the Board's guests for the forum, James White, Director Tax Policy and Administration Issues, Government Accountability Office (GAO); and J. Russell George, the Inspector General for Audit, Treasury Inspector General for Tax Administration (TIGTA).

He addressed the topic of the day, noting that the tax gap affects everyone, and everyone has a role in efforts to reduce it. He said the Board asked the panelists to comment on what their organizations could do to reduce the tax gap, recognizing that the IRS is not the sole owner of the tax gap problem. He emphasized that the entire tax administration community has a responsibility to address the problem. The Chair then introduced Raymond T. Wagner, Jr., Chair of the Board's Operations Support Committee, as the moderator of Panel 1, and Robert Tobias, Chair of the Board's Operations Committee, as the moderator of Panel 2. The Chair then asked the panelists and Board members to introduce themselves prior to beginning the discussions.

CENTRAL THEMES

The Board, along with many other members of the tax administration community, believes that reducing the tax gap requires a comprehensive set of strategies with various actions, from a simpler tax code and more complete income reporting to better enforcement and quality customer service. A successful strategy encompasses separate but interrelated approaches that will reinforce each other to produce the desired result, a reduction of the tax gap. This approach is broader than just the IRS; it considers that many individuals and organizations have a role in improving tax compliance.

In its 2006 Annual Report and in its FY2007 IRS Budget Recommendations Special Report, the Board outlined six strategies that it believes are needed for a comprehensive plan to reduce the tax gap. The six strategies are:

- 1) Simplify the Tax Code
- 2) Improve Information Reporting
- 3) Improve Customer Service
- 4) Provide More Focus on Research
- 5) Encourage Productive Partnerships Between IRS and the Tax Community
- 6) Emphasize Personal Integrity

This report summarizes the central themes that emerged at the public meeting, and aligns those themes with the Board's six strategies to reduce the tax gap.

Board Strategy #1: Simplify the Tax Code

Stakeholder Theme: Complexity is the Enemy of Voluntary Compliance

The Board's Special Report on the FY2007 IRS Budget Recommendations lists six strategies to reduce the tax gap, beginning with simplification of the tax code. The complex and continually changing tax code makes it extremely difficult for taxpayers to comply with the law; provides opportunities for those who exploit its complexity to cheat; and presents challenges for the IRS to commit resources to administer and enforce.

Simplification of the tax code was supported by most of the stakeholders at the public meeting, with the ABA and the AICPA describing it as a priority over the past few years. Both agreed that yearly changes in tax law make it difficult for tax professionals to remain technically proficient, and those changes also contribute to honest misunderstandings of facts or law. The American University Federal Tax Clinic (AUFTC) pointed out that taxpayers who do not have a good understanding of their responsibilities may question the fairness of the system, which could lead to erosion of confidence and declining compliance. Complexity makes it especially difficult for taxpayers who struggle with literacy and language barriers, and many complex provisions apply to low-income taxpayers, those least likely to have the resources necessary to seek help to comply.

Stakeholders agreed that tax law complexity has a broad effect on tax administration, including the impact on IRS' systems modernization efforts; IRS technical training efforts; even the IRS' ability to target noncompliance through enforcement efforts. The requirement to do more detailed and complex audits competes with the need to do more audits overall in an environment of limited resources.

The IRS not only must deal with issues of tax law, but must do so even as it is asked to perform functions outside its core responsibility to collect taxes, such as data gathering, administering social program tax credits, utilizing resources to fight money-laundering and bank secrecy, among others. As it does this, the IRS must address non-compliance, which occurs for various reasons: complexity; the cost of compliance; increased taxpayer burden; uncertainty as to the interpretation of the tax law; and even outright tax evasion. While the Board is limited by statute in addressing areas of tax policy, it can support legislative recommendations that simplify tax administration. The important question becomes whether the IRS will be able to administer legislative proposals that theoretically are intended to reduce taxpayer burden but in fact may increase tax administration burden.

Board Strategy #2: Improve Information Reporting

Stakeholder Theme: Modernization of IRS Systems is a Positive Avenue for Easing Taxpayer Burdens

The Board has recommended improved information reporting to address large areas of the tax gap related to the cash economy. The National Payroll Reporting Consortium (NPRC) described its efforts to work with both the IRS and the Social Security Administration to eliminate unnecessary IRS notices, and said the improved accuracy in IRS systems will allow the agency to focus more resources on other areas of the tax gap.

However, the NPRC also said there are also questions about the IRS' ability to receive and process additional information reporting at this time. NPRC said the IRS information processing systems have not been upgraded and are not scheduled for increased funding for enhancements; there are delays in processing and updating currently received information from the SSA on corrected W-2s. In discussing proposals for additional information reporting, TEI suggested the IRS demonstrate its ability to effectively use the information it already receives, and how it would process the additional information that is proposed to be collected.

The NPRC further suggested that expanded secure electronic transactions for account problem resolution would solve problems quicker, prevent unnecessary notices, and free-up IRS resources for enforcement, which should reduce the tax gap. The AUFTC said expanded information reporting would have little impact on the low-income taxpayer community, but that IRS modernization efforts to date have resulted in rapidly

generated computer correspondence, forcing more low-income taxpayer disputes quickly into the collection process.

Stakeholder Theme: Small Business Competitiveness Helps Grow the Economy

Some stakeholders asked how much additional burden businesses should be asked to accept to help eliminate the tax gap. The National Association of Enrolled Agents (NAEA) said already compliant businesses could be subjected to additional information reporting burden, while the cash economy and underreported income represent the largest part of the tax gap. The National Society of Accountants (NSA) suggested there needs to be a better process to help new small businesses understand their payroll reporting responsibilities. Board member Deborah Wince-Smith noted that data indicates job growth in the economy is coming from small business, and a growing informal cash economy limits business competitiveness, access to venture capital, and other advantages for their workers.

Board Strategy #3: Improve Customer Service

Stakeholder Theme: Taxpayer Education is Essential to Improve Voluntary Compliance

Stakeholders agreed that taxpayer education is an essential ingredient for improved voluntary compliance. The AICPA believes that it is a critical strategy for the IRS to address the tax gap using customer service resources to help taxpayers be aware of their legal obligations. The AUFTC urged the expansion of efforts to educate taxpayers having limited English proficiency about the tax laws and encouraged funding of outreach to these populations through funding of clinics.

Several stakeholders described their own taxpayer education efforts. The NSTP pointed out that the basis for our voluntary tax system is being challenged by immigrants who have language and cultural issues in dealing with taxes, and said they are launching initiatives to teach students about their tax responsibilities. The NPRC worked with a group of industry trade associations to develop a voluntary disclosure program designed to remind taxpayers of their ultimate responsibility for the payment of federal taxes. The National Association of Tax Professionals (NATP) said the IRS needs to enhance their marketing efforts to tax professionals, as well as taxpayers, on specific “real world” tax gap problems. NATP has prepared related topics for practitioner instruction throughout the continuing professional education season.

The Deputy Controller for California described her state’s advertising campaign in conjunction with a tax amnesty campaign, and the results of a study following the campaign that showed increases in taxpayer awareness about how the state spends tax dollars, tax cheating, and the importance of honesty in filing tax returns. At the same time, she said it was difficult to determine the cost benefit ratio of education versus the state’s enforcement efforts.

Stakeholder Theme: IRS Human Capital is a Critical Factor

The AICPA believes that one critical component of any tax gap strategy is ensuring a fully funded IRS budget. A key element for a balanced approach to make a dent in the tax gap is for the IRS to have the necessary resources available to fund service, enforcement and information technology programs. TEI noted that Congress is responsible for properly funding the IRS, so that the agency can provide an effective, adequately staffed tax compliance strategy.

The AICPA suggested that increases in IRS examinations, information reporting, and withholding might be approaches to reducing the tax gap, but cautioned that the cost of new taxpayer burdens should not

overwhelm the benefit of more effective tax administration. The AICPA said recruitment and retention of a quality workforce is essential for the IRS to close the tax gap.

The NTEU said it supports a two percent annual net increase in IRS staffing over a five-year period to gradually rebuild the IRS workforce. Because it takes time and careful management to hire, train and deploy qualified professional staff, NTEU said consistent but modest increases are necessary. NTEU maintains that the potential for increasing revenues, enhancing compliance and shrinking the tax gap makes it sound budget policy. The NTEU also said it opposes the private debt collection initiative, instead supporting the hiring of additional IRS employees who have the expertise and knowledge to ensure taxpayers comply with their tax obligations and who will respect taxpayer's rights and privacy.

Board Strategy #4: Provide More Focus on Research

Stakeholder Theme: More IRS Research will Lead to More Effective Action

In its 2006 Annual Report, the Board recommends six inter-related strategies that it believes would constitute an over-arching plan to reduce the tax gap and serve to prevent non-compliance as well as aid enforcement efforts. One of the strategies the Board recommends is that there should be a much greater emphasis and focus on research so the IRS can more effectively target areas of major non-compliance and more accurately measure the tax gap. The Board further recommended that the IRS develop a long-range strategic plan for research.

Comments at the public forum confirmed the Board's position. TIGTA raised concerns that, despite the IRS' significant efforts in conducting the National Research Program, the IRS still does not have all the information it needs to accurately assess the overall tax gap and voluntary compliance rates. The Tax Executives Institute proposed that before the tax gap can be addressed, three things must be accomplished: a common definition; accurate and current quantification; and balanced remedial measures. TEI suggests that the IRS does not yet have the data to document whether the tax gap is larger, smaller, or is the same as it has been in the past. TEI points out that to develop long-term strategies to address the tax gap, it is necessary to first know its size and impact on tax administration. The ABA concurred, adding that the IRS must have an accurate assessment in order to best deploy its resources to most effective use in reducing the tax gap.

The AICPA believes that the NRP is a positive foundation for meeting the IRS' needs for data and analysis of the tax gap, but stressed the ongoing need to continuously refine the tax gap data and identify the types of industries and taxpayers contributing to the growth in the tax gap. With the time lag between IRS NRP audits and the release of data, the tax gap may have already evolved into new problem areas. The National Association of Tax Professionals (NATP) agreed, but said the problem with "estimates" or "approximations" of the tax gap and other broad concepts is that they do not provide "real world" examples that are relevant to the experience of tax preparers. Preparers are willing to work together with the IRS to reduce the tax gap, but need specific information about problem areas. Both the AICPA and the National Society of Tax Professionals (NSTP) have begun efforts to gather information to better understand taxpayer compliance, and emphasize that the experience of the tax professional community can add currency and real world examples to complement the IRS tax gap data.

All of the participants agreed that research should play a more important role in defining, understanding and ultimately reducing the tax gap. With more accurate information about non-compliance, the IRS would be in a better position to deploy its strategies and resources to target the tax gap.

Stakeholder Theme: Setting an Effective Goal, Setting an Effective Measure, and Having a Purposeful Drive to Reach that Goal has a Significant Impact on the Behavior of the Entire Tax Ecosystem

The ETAAC representative said that establishing a goal for electronic filing has had a significant effect on tax return filing, and recommended a goal to reduce the tax gap to get everyone working together to achieve it. The Deputy Controller of California said her state developed a strategic approach to reducing the state's tax gap and set six goals that included five factors for success. California proposed specific initiatives, objectives, tasks, and timeframes for each of the six tax gap goals. She said California has worked closely with the IRS to in the areas of Education, Enforcement, and Exchange (of information) to reduce the tax gap relating to tax shelters from \$500 million down to \$100 million.

Board Strategy #5: Encourage Productive Partnerships Between IRS and the Tax Community

Stakeholder Theme: Partnership is a Key Word: Tax Preparers have an Important Role in Helping Taxpayers be Compliant

In its 2006 Annual Report, the Board urges a more productive partnership between IRS and the tax administration community. Tax practitioners prepare over 60 percent of individual tax returns, and have a great deal of influence on taxpayer compliance levels. The Board believes that although practitioners have professional obligations to represent their clients effectively, they also have an important role in ensuring that taxpayers are complying with their legal tax obligations. Both the IRS and the tax professional community should work together to reduce the tax gap.

The AICPA supports the IRS' efforts to partner with professional organizations in the area of pro bono tax assistance, which allows the IRS to leverage scarce resources and increase customer service. The National Council of Taxpayer Advocacy (NCTA) recommended a compact between practitioners, their professional organizations, and the IRS that sets forth mutually agreeable principles and best practices. It would assist in reducing the tax gap by improving the relationship between those who enforce the law and those who assist taxpayers in complying with the law. The NSTP said it also supports both tax professionals and the IRS working together in the spirit of understanding and cooperation to address the tax gap.

There was some discussion about the current efforts to enact tax practitioner registration and/or regulation. The AUFTC said low-income taxpayers often turn to paid tax preparers, some of whom may lack basic competence or even actively promote fraud. The federal tax clinic representative said that the National Taxpayer Advocate has proposed competency testing for preparers, but that greater enforcement of existing preparer signing requirements and preparer penalties may be a more fruitful approach. The Deputy Controller of California explained that all tax preparers in California (who are not already lawyers, CPAs or Enrolled Agents) are registered and regulated by a private organization. If the IRS does not have the resources to register or regulate preparers, an option might be for the tax professional industry to step-up to self-regulation.

Stakeholder Theme: Improve Taxpayer Confidence in the Tax System

The NAEA believes that the regulation of unenrolled return preparers would help close the tax gap and also restore taxpayer confidence in the fairness of the tax system. The NATP agreed. NATP members' number one response when asked how the IRS could help them in reducing the tax gap was more cooperation from the IRS to help curb unscrupulous and/or fraudulent paid preparer behavior.

TEI noted that all taxpayers, associations, and other stakeholders — public or private, individual or corporate — have a stake in closing the tax gap and a duty to do what they can to do so. The collective efforts of all should, over time, enhance tax compliance, increase government revenues, and optimally build taxpayer confidence that more if not most taxpayers are paying their fair share of tax.

Board Strategy #6: Emphasize Personal Integrity

Stakeholder Theme: There Should be More Emphasis on Personal Integrity in Making Tax Decisions, for Taxpayers and Tax Preparers

The stakeholders generally agreed that taxpayers and tax preparers should emphasize personal integrity in making tax decisions. The AICPA applauded the Oversight Board for emphasizing the personal integrity of taxpayers and preparers, one of the Board's six strategies for addressing the tax gap. The AICPA also applauded Commissioner Everson's commitment to high standards for tax professionals and his efforts to upgrade the Office of Professional Responsibility.

The AICPA recommended that all tax preparers be held to similar standards of professional conduct. The AICPA believes that continuing professional education programs are an important means for mitigating the tax gap and help ensure positive technical competency, values, and ethics among practitioners. The tax system is best served when the public has confidence in the honesty and integrity of the professionals providing tax advice. The AICPA further supports carefully crafted penalties that promote tax compliance and result in meaningful reduction in the tax gap.

The AUFTC said recent focus on the need for greater transparency in the tax system seems appropriate. Compliance is dependent upon a level of confidence that the system is fair in design and in enforcement. The NSTP said it encourages all professionals to seek membership in professional organizations which demand excellence of performance and delivery of quality products with a strict commitment to ethical and professional conduct. The IRSAC believes that competent tax preparers facilitate efficient tax administration, and the NSA recommended that its members take it upon themselves to educate their clients when observing areas of noncompliance in the cash economy.

Stakeholder Last Thoughts

- Participants were asked to give their final thoughts before the close of the forum:
 - The tax gap needs to be better defined and explained;
 - There needs to be a better understanding of the various parts of the tax gap to target non-compliant sectors of the tax eco-system;
 - The tax professional community is a untapped resource for the IRS;
 - The IRS Nationwide Tax Forums are a way to encourage professionalism and ethics in the tax practitioner community;
 - Promote compliance among low-income taxpayer by reinforcing the view that the tax system is fair to all;
 - Embrace a compact of cooperation and professionalism between practitioners and the IRS to improve voluntary compliance;
 - There is no single fix, but above all, everyone should be treated fairly; and
 - Education about our tax system is very important, especially for young people

Appendix of Detailed Comments

Stakeholder Theme: Complexity is the Enemy of Voluntary Compliance

- Pam Olson of the ABA said the “elephant in the room” is the complexity of the tax code. She said simplification has been a priority of the ABA for the past seven years. Most attendees in the room agreed with her.
- Simplification of the tax code also is a high priority for the AICPA. Yearly changes in tax law through new legislation make it difficult for tax professionals to keep up technically, and cause software developers to struggle with the production of software updates during the filing season.
- The American University Washington College of Law Janet R. Spragens Federal Tax Clinic (AUFTC) stated that most errors made by low-income taxpayers are generally attributable to the sheer complexity of the law, an honest misunderstanding of facts or law, or a reliance on paid tax return preparers. Applying complex law to complex household situations, different from the traditional nuclear family, can present challenges.
- The AUFTC stated that early initiation of return examination is actually a good thing and likely saves taxpayers interest and penalties. However, early and abbreviated administrative review can be counterproductive. Some taxpayers feel they have been denied process and question the fairness of the system, leading to an erosion of confidence necessary for good compliance. A fair tax system requires that the taxpayer have a meaningful opportunity to understand his or her obligations. The AUFTC urged that efforts to accelerate the pre-assessment process be reexamined and that the Service acknowledge the importance of meaningful opportunity for dialogue between taxpayer and examiner during the audit process.
- The AUFTC also pointed out that tax law complexity often defies easy comprehension by experts, let alone those struggling with literacy, sophistication, and language barriers. While simplification of the law and the tax process seems likely to result in improved compliance, it can come at the price of equity and fairness in the tax system. Simplification resulting in perceived inequity in the allocation of the tax burden could undermine confidence in government and may not increase compliance.
- The IRSAC said that significant government and private resources could be freed by simplification. However, the IRSAC cautions against enactment of last-minute, retroactive legislation that can be particularly disruptive to the tax system.

Stakeholder Theme: Modernization of IRS Systems is a Positive Avenue for Easing Taxpayer Burdens

- In its most recent Annual Report, the Oversight Board recommended several strategies to reduce the tax gap, including improved information reporting. NPRC has worked with the IRS and SSA to eliminate unnecessary IRS notices. Each unnecessary notice represents a taxpayer who is incorrectly flagged by IRS computers as having underreported income. Improved accuracy and currency of the system will enable the IRS to focus more on taxpayers that do contribute to the tax gap.
- Tony Tullo, representing the National Payroll Reporting Consortium (NPRC), said there are questions about the ability of the IRS to handle additional information reporting. He said the IRS systems for information reporting have not been upgraded and have not received funding for enhancements. He said the IRS information exchange with the Social Security Administration is not timely updated to reflect W-2Cs, often leading to IRS re-work.
- In looking at additional information reporting requirements, TEI suggested that collection costs should be weighed against the dollars to be collected. Before imposing additional burdens on the business

community, the IRS should demonstrate its ability to effectively use the information it already receives, and the additional information it proposes to collect.

- The NAEA supports three proposals put forth by the Joint Committee on Taxation: publicly-traded securities basis reporting; real estate tax reporting; and auction sales proceeds reporting. These proposals would eliminate potential opportunities for understating earnings.
- The AUFTC said that recommendations to expand information reporting (e.g. basis reporting) would have little impact on the low-income population. Most are W-2 wage earners; others are getting Forms 1099 (either correctly or in place of W-2 forms). To the extent there is modest interest, prizes, pension, or social security income—all is already subject to third party reporting. She said the expanded reporting proposals seem directed primarily at different populations
- The AUFTC noted the increased emphasis on efficiency and expediency as part of IRS modernization, and said one result is the over-acceleration of the processing of low-income taxpayer matters. The administrative process now takes place long distance, via rapidly computer generated correspondence. The net effect of the streamlined administrative process is that more disputes are forced into the collections process. Many of these cases could quickly be resolved with human contact and discussion opportunities.
- The NPRC has recommended in the past that IRS electronic filing goals be expanded to address all transactions with the IRS. Correspondence with the IRS should be available in secure electronic form, for example, and account access and problem resolution should be possible via authorized self-service. Implementation of e-services by payroll firms will cut IRS operating costs by permitting authorized self-service, and pre-filing applications will improve accuracy further by allowing verification of taxpayer information before making payments and filing returns, which will prevent notices. Each element will free-up resources and allow IRS staff to refocus their attention on service and enforcement, which should help reduce the tax gap.

Stakeholder Theme: Small Business Competitiveness Helps Grow the Economy

- Roger Harris, National Association of Enrolled Agents (NAEA), said two things are known about the tax gap; the IRS says most is attributable to small business and small business relies on the preparer community. He asked how much burden businesses should be asked to accept to help eliminate the tax gap. Already compliant businesses could end up shouldering more of the burden, But he said practitioners could help in working toward a better balance between service and enforcement
- The NSA said that independent accountants representing small business clients are seeing more of a cash economy and that underreported income represents a large part of the tax gap. NSA suggested the need for a better educational process to help new small businesses understand their reporting responsibilities, especially with respect to payroll reporting.
- Board member Deborah Wince-Smith noted that the tax gap has an impact on business competitiveness, and asked about data linking the tax gap to the overall gross domestic product. She said data indicates job growth in the economy is coming from small business, and a growing informal cash economy limits business access to venture capital and other advantages for their workers.

Stakeholder Theme: Taxpayer Education is Essential to Improve Voluntary Compliance

- The AICPA believes that a critical strategy for dealing with the tax gap involves the IRS using customer service resources to help taxpayers be aware of their legal obligations. The AICPA stressed the importance of the IRS' commitment to pre-filing within all four operating divisions, including W&I Stakeholder Partnership, Education and Communications; the SBSE Communications, Government Liaison and Disclosure Office, and taxpayer education about recordkeeping responsibilities and major

areas of noncompliance. The IRS' Taxpayer Assistance Blueprint (TAB) provides for a number of positive customer service oriented projects and initiatives that should make meaningful contributions to reducing the overall tax gap.

- The AUFTC stated that its programs to assist low-income taxpayers contribute significantly to educating taxpayers about the law, educating taxpayers about “the system”, and educating legislators and administrators about issues and processes perceived as requiring adjustment or correction to increase systemic fairness.
- The AUFTC commended all efforts to educate people at all income levels about their responsibilities. The clinic urged the expansion of efforts to educate taxpayers having limited English proficiency about the tax laws and encouraged funding of outreach to these populations through funding of clinics. It also believes that the availability of free assistance to taxpayers in the post-filing period is equally if not more critical to the promotion of education as well as fairness and justice, and urged that the effort to fund clinics to do this work be continued and expanded.
- The NSTP also pointed out that the basis for our voluntary tax system is being challenged by immigrants who have language and cultural issues in dealing with taxes. To address this, the NSTP will launch a new initiative to provide its members with the tools and presentation materials to teach middle school and high school students about why they must be diligent in the reporting and paying of taxes. NSTP's “Champion Compliance” program will give students an understanding of how the government is funded and will present basic information about tax compliance. NSTP also plans to introduce tax information into “English as a Second Language” classes around the country.
- The National Payroll Reporting Consortium (NPRC) recently led a group of industry trade associations to develop a voluntary disclosure program designed to remind taxpayers of their ultimate responsibility for the payment of federal taxes, and to suggest that they use the IRS EFTPS system to verify that tax payments were made on their behalf. NPRC said improved awareness will not only improve the safety of tax funds, but also will increase EFTPS awareness and usage. The NPRC and other stakeholders also recently agreed to work with the IRS to amend existing regulations governing Reporting Agents to make such disclosures mandatory and require that they be made at least quarterly.
- NATP said the IRS needs to enhance their marketing efforts to tax professionals, as well as taxpayers, on specific “real world” tax gap problems. It would help tremendously to get the same specificity contained in the “dirty dozen” tax scams to problems faced by well-intended and compliant-oriented taxpayers. If, for example, the IRS were to better inform the public that “these three things are causing a gap in the service station business” or “these four items are the cause of a gap in automobile dealerships,” tax professionals would address those problems and inform their clients.
- NATP has a valued ongoing relationship with the IRS and would like to enhance the partnership in pursuing reduction of the tax gap. NATP has examined significant issues contributing to the tax gap and will prepare related topics for practitioner instruction throughout the education season. For example, NATP knows that basis reporting contributes to the tax gap and will be instructing in the proper calculation and determination of basis at the IRS Tax Forums around the country.
- Ms. Mandel, FTA, said that California did an advertising campaign in conjunction with a tax amnesty campaign, and did a study following the campaigns that showed increases in taxpayer awareness about how the state spends tax dollars, tax cheating, and the importance of honesty in filing tax returns. Yet she said it was difficult to determine the cost benefit ratio of education versus enforcement efforts.
- Mr. Stamey, NSA, said from his experience (25 years with the IRS, and 10 years as a practitioner) that IRS needs to devote more educational resources to non-filers, especially those businesses not filing or not correctly filing Form 1099MISC.
- James White, GAO, said no one has a really good understanding of what is effective in educating taxpayers. Board member Deborah Wince-Smith mused about the value of possible partnership efforts between the IRS and the Small Business Administration.

Stakeholder Theme: IRS Human Capital is a Critical Factor

- The AICPA suggested that increases in IRS examinations, information reporting, and withholding might be approaches to reducing the tax gap, but cautioned that the cost of new taxpayer burdens should not overwhelm the benefit of more effective tax administration. The AICPA supports increasing the number of SBSE examination and collections personnel to make a reasonable dent in the tax gap. In this vein, the AICPA believes the recruitment, development and retention of a quality workforce is essential for the IRS.
- The AICPA suggested that the IRS needs a larger, more sophisticated group of examiners. He said the “prestige” of working for the IRS is not there for mid-career accounting professionals; he suggested the IRS could do more to close the tax gap with better recruitment of mid-level professionals and more, better quality taxpayer audits.
- The NTEU supports a two percent annual net increase in IRS staffing (roughly 1,885 positions per year) over a five-year period to gradually rebuild the IRS workforce to pre-1998 levels. Because it takes time and careful management to hire, train and deploy qualified professional staff, NTEU said consistent but modest increases are necessary. Although this would require a substantial financial commitment, the NTEU maintained that the potential for increasing revenues, enhancing compliance and shrinking the tax gap makes it sound budget policy. The NTEU states that one way to accomplish this off-budget, would be to allow the IRS to retain a small portion of the revenue it collects and dedicate it to funding additional staff positions to strengthen enforcement.
- The AICPA believes that one critical component of any tax gap strategy is ensuring a fully funded IRS budget. But just applying additional resources to do more of what is being done today is not sufficient, and any plan to address the tax gap must be more comprehensive. A critical element for a balanced approach to make a dent in the tax gap is for the IRS to have the necessary resources available to fund service, enforcement and information technology programs.
- TEI also noted that Congress is responsible for properly funding the IRS, so that the agency can provide an effective, adequately staffed tax compliance strategy and address the overriding issue of tax simplification.
- The NTEU opposes the private debt collection initiative, instead supporting the hiring of additional IRS employees who have the expertise and knowledge to ensure taxpayers comply with their tax obligations and who will respect taxpayer’s rights and privacy. NTEU believes the collection of taxes is an inherently governmental function that should be restricted to properly trained and proficient IRS personnel. The NTEU believes that IRS employees can collect taxes owed the government for less cost than private collection firms.

Stakeholder Theme: More IRS Research will Lead to More Effective Action

- J. Russell George, Inspector General for Tax Administration, said TIGTA raised concerns in September 2006 testimony that despite significant efforts in conducting the individual taxpayer National Research Program, the IRS still does not have sufficient information to accurately assess the overall tax gap and voluntary compliance rates (*testimony before the Senate Homeland Security and Governmental Affairs Subcommittee on Federal Financial Management, Government Information, and International Security, September 26, 2006*).
- The Tax Executives Institute (TEI) proposed that pragmatically addressing the tax gap requires three things accomplished sequentially – a common definition; accurate and up-to-date quantification; and balanced remedial measures. There is no evidence documenting that the problem is any larger, or

- smaller, than in the past. Based on available data, the compliance rate appears to be between 80 and 85 percent, just about what it was 10 years ago and 20 years ago.
- TEI noted that it is important to acknowledge that, while the IRS cannot be expected to do it all, the call for a balanced, shared approach to dealing with the tax gap must constitute more than the shift of responsibility for improving compliance from the government to the private sector. The IRS cannot audit its way out of the tax gap, but must be held accountable for accurately measuring the tax gap and implementing strategies to reduce it.
 - TEI stated that the data suggest that corporations generally, and large corporations in particular, have extraordinarily high compliance rates. The data also suggest that the largest part of the tax gap originates in the individual and small business segments of taxpayers. TEI suggests the IRS focus on noncompliant taxpayers, using a multi-year strategy that employs a mixture of tools: technological innovation, administrative and regulatory guidelines, and traditional compliance activities.
 - The American Bar Association Section of Taxation (ABA) suggested that the IRS needs to do additional research to determine the tax gap problem areas and how to best allocate its resources to address those specific areas.
 - The American Institute of Certified Public Accountants (AICPA) believes the NRP is a positive foundation for meeting the IRS' needs for data and analysis of the tax gap. The AICPA commended the IRS for its efforts to reach out to the practitioner community prior to the start of the NRP, and called on the IRS to continue to maintain a high level of outreach and dialogue with the stakeholder community to ensure positive implementation and minimal taxpayer burden, both critical ingredients for program success. AICPA stressed the ongoing need to continuously refine the tax gap data and identify the types of industries and taxpayers contributing to the growth in the tax gap.
 - The National Association of Tax Professionals (NATP) said the problem with "estimates" or "approximations" of the tax gap and other broad concepts is that they do not provide "real world" examples that are relevant to the experience of tax preparers. Specificity is needed in order for tax professionals to efficiently focus their efforts on eliminating or reducing the tax gap. To work in partnership with the IRS, NATP members need specific information from the IRS on exactly what is causing the gap and what to look for in working with their clients; then they can take specific action to work towards eliminating causes of the gap.
 - The National Society of Tax Professionals (NSTP) has begun an effort to gather information to better understand taxpayer compliance. Members have been asked to submit examples gathered from preparation of over 3 million tax returns during the filing season of why compliance is difficult. *The Obstacles of Voluntary Compliance from the Taxpayers Perspective* will be presented at the IRS Research Conference in June 2007. NSTP believes the experience of the tax professional community can add real world examples and tangible evidence of how taxpayers struggle with a complicated tax code, Internal Revenue Service practice and procedure, or complex financial and personal issues.
 - The AICPA plans to survey Tax Section members at the close of the 2007 filing season to assess the perspective of CPAs on ways to address the tax gap.
 - The Internal Revenue Service Advisory Council (IRSAC) said that to effectively reduce the tax gap, it is necessary to understand its components based on reliable data. Precise quantification may not be possible, cost effective, or necessary; however, research-based data is better than anecdotal evidence. The 2001 National Research Program provided much of the information on which current estimates of the tax gap are based, and ongoing research facilitates the development of effective strategies to improve voluntary compliance, combat specific areas of noncompliance, allocate resources effectively.
 - At the request of the IRS, IRSAC has added a subgroup whose focus will be analysis of tax gap data. Composed of academics and other tax research experts, this subgroup underscores IRSAC's continuing commitment to communication and cooperation between private individuals with tax expertise and the IRS.

- The Electronic Tax Administration Advisory Committee (ETAAC) suggested the IRS research to what extent the tax gap is attributable to returns prepared by paid preparers as opposed to taxpayer self-prepared returns.

Stakeholder Theme: Setting an Effective Goal, Setting an Effective Measure, and Having a Purposeful Drive to Reach that Goal has a Significant Impact on the Behavior of the Entire Tax Ecosystem

- The ETAAC representative said that establishing a goal for electronic filing has had a significant effect on tax return filing. He recommended a goal to reduce the tax gap to get everyone working together to achieve it.
- Marcy Mandel, Deputy Controller of the State of California, represented the Federation of Tax Administrators (FTA). She said in 2006, the state of California developed a strategic approach to reducing California's tax gap of approximately 11 percent each year. The plan contains the following six goals, with each goal targeting a primary cause of the tax gap:
 - Improve taxpayer confidence in the tax system;
 - Make taxes less taxing;
 - Make it harder to cheat;
 - Level the playing field for businesses;
 - Support high standards in the tax professions;
 - Become more innovative in attacking the tax gap.

In finalizing its plan, California adopted five factors to make the plan successful:

- Partner with others;
 - Leverage federal efforts;
 - Ask taxpayers and tax professionals what they think;
 - Be mindful of unintended consequences;
 - Have sufficient resources and allocate them wisely.
- California proposed specific initiatives, objectives, tasks, and timeframes for each of the six tax gap goals. All of this information is available on the California Franchise Tax Board web site at <http://www.ftb.ca.gov/aboutFTB/TaxGapStratPlan.pdf>
- Ms. Mandel said that her state worked closely with the IRS to in the areas of Education, Enforcement, and Exchange (of information) to reduce the tax gap relating to tax shelters from \$500 million down to \$100 million.

Stakeholder Theme: Partnership is a Key Word: Tax Preparers have an Important Role in Helping Taxpayers be Compliant

- The AICPA supports the IRS' efforts to partner with professional organizations in the area of pro bono tax assistance. This allows the IRS to leverage scarce resources and increase customer service. The IRS has also partnered with state CPA societies to teach local tax practitioner courses and small business tax workshops that have been taught by IRS staff in the past.
- The National Council of Taxpayer Advocacy (NCTA) recommends a compact between practitioners, their professional organizations, and the IRS that sets forth mutually agreeable principles and best practices. It would assist in reducing the tax gap by improving the relationship between those who enforce the law and those who assist taxpayers in complying with the law. The compact aspires to a higher view of tax administration that promotes fairness, increased compliance, and respect for the tax law.

- NSTP said it supports both tax professionals and the IRS working together in the spirit of understanding and cooperation, to address the gap between what is mandated, congressionally and through legislation, and what is practical, in implementation and compliance, and in the end, to achieve a compliant taxpayer.
- Board member Deborah Wince-Smith suggested that taxpayer rights bills include provisions including the responsibilities of tax practitioners towards their clients and towards the tax system.
- Ms. Mandel, FTA, explained that all tax preparers in California (who are not already lawyers, CPAs or Enrolled Agents) are registered and regulated by a private organization. The California Franchise Tax Board issues penalties to unregistered preparers and pursues fraudulent preparers; however, the state does not share its information with the IRS due to privacy laws. She suggested the states and the IRS need to work together toward the best use of their resources. Suggestions were made regarding cross-checking for business licenses, business cell phone accounts, business accounts with retailers and the IRS to determine if taxpayers are filing Schedule C.
- The AUFTC stated that the largely minimum-wage-population with whom it works turns, more often than not, to paid tax preparers. These preparers may lack basic competence or, on occasion, may actively promote fraudulent return preparation. When EICs are erroneously claimed, she said, the probability is high that a paid preparer is involved and there is a good chance that a refund anticipation loan was involved in the return preparation.
- The AUFTC maintained that return preparer problems tend to result from lack of skill on the one hand to preparer fraud /dishonesty on the other hand. The proposal advocated by the National Taxpayer Advocate for competency testing for preparers has considerable merit, but would have a cost impact on preparer services. To thwart dishonest return preparation, greater enforcement of existing preparer signing requirements and preparer penalties may be a more fruitful approach.
- Pam Olson said the ABA produced a video on How to Choose a Tax Return Preparer that reached over 2 million taxpayers during filing season. She said it adds credibility to the tax system and signals taxpayers that everyone has a responsibility to pay their taxes.

Stakeholder Theme: Improve Taxpayer Confidence in the Tax System

- The NAEA believes that the regulation of unenrolled return preparers would help close the tax gap. The National Taxpayer Advocate has recommended the establishment of minimum levels of competency for return preparation by developing a federal system to register, test and certify unenrolled return preparers. NAEA suggested that policymakers set significant and reasonable goals to reduce the tax gap. Lack of taxpayer confidence in the fairness of the tax system could undermine our voluntary system of self-assessment
- NATP polled its members as to how the IRS could help them in reducing the tax gap. Their number one response was that more cooperation from the IRS would help curb unscrupulous and/or criminal behavior. They said that many IRS offices refused to take a complaint about a fraudulent paid preparer from another paid preparer. NATP recognizes that there must be safeguards to prevent abuse, unfounded allegations and frivolous complaints; however, they say the IRS is missing valuable and worthy “tip information” concerning bad actors in the profession. Some members believe that the IRS does not act on any information provided, so they do not volunteer it anymore. Other NATP members have said there is a belief among some preparers that the IRS doesn’t have time for “small situations” so people think they can “cheat a little.”

Stakeholder Theme: There Should be More Emphasis on Personal Integrity in Making Tax Decisions, for Taxpayers and Tax Preparers

- AICPA applauded the Oversight Board for emphasizing the personal integrity of taxpayers and preparers, one of the Board's six strategies for addressing the tax gap
- AICPA also applauded Commissioner Everson's commitment to high standards for tax professionals and his efforts to upgrade the Office of Professional Responsibility. AICPA recommends that all tax preparers be held to similar standards of professional conduct. AICPA believes continuing professional education programs are an important means for mitigating the tax gap and helps ensure positive technical competency, values, and ethics among practitioners. AICPA supports the IRS' Nationwide Tax Forum program designed to address the knowledge and ethics base of mainstream professionals.
- AICPA agrees with language in the Circular 230 regulation (2005) that states "Tax advisors play a critical role in the Federal tax system, which is founded on principles of compliance and voluntary self-assessment. The tax system is best served when the public has confidence in the honesty and integrity of the professionals providing tax advice." AICPA further supports ethics training for IRS employees. Government workers and tax professionals should understand and respect each other to ensure greater tax compliance.
- The NSA suggests that its members take it upon themselves to educate their clients when observing areas of noncompliance in the cash economy. NSA also suggests that its members seek assistance from other members to increase their level of competency, and increase coordination with state affiliates to maintain and improve mechanisms to ensure its members provide appropriate tax advice.
- The AUFTC said recent focus on the need for greater transparency in the tax system seems appropriate. Compliance is dependent upon a level of confidence that the system is fair in design and in enforcement. Fairness and openness go hand in hand. When taxpayers feel overwhelmed, ignored, and pushed through a system that is dark, mysterious, cursory, far away and inaccessible, the goal of encouraging voluntary compliance is undermined.
- NSTP said it encourages all professionals to seek membership in professional organizations which demand excellence of performance and delivery of quality products with a strict commitment to ethical and professional conduct.
- The IRSAC believes that competent tax preparers facilitate efficient tax administration. IRS efforts have focused on education and discipline; IRSAC supports continued emphasis on education and increased emphasis on discipline.
- The AICPA supports carefully crafted penalties that promote tax compliance and result in meaningful reduction in the tax gap. The AICPA supports establishing a broad legislative oversight (penalty) review process which would result in a greater number of taxpayers believing that tax fairness has been achieved. Taxpayers should not be penalized for honest misunderstandings.